

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6826**

**BILL NUMBER:** HB 1852

**NOTE PREPARED:** Dec 19, 2002

**BILL AMENDED:**

**SUBJECT:** Fund Member Investment Selection.

**FIRST AUTHOR:** Rep. Hinkle

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill permits members of the Legislators' Defined Contribution Fund, Teachers' Retirement Fund (TRF), and Public Employees' Retirement Fund (PERF) to change investment selections once every 30 days, with the change being effective on the first day of the next month that begins at least 30 days after the member's retirement fund receives the change notice. It requires the PERF or TRF Board to accept the notice electronically, by fax, or by United States mail.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** *Summary:* For PERF, the set-up costs are estimated at between \$250,000 and \$500,000, with the annual on-going costs ranging between \$6 M and \$7 M. For the TRF, the estimate for annual on-going costs ranges between \$1.2 M and \$2 M and includes the start-up costs. For the estimates for both PERF and TRF, it is assumed that roughly 60% of the on-going record-keeping costs relate to members' account administration (daily valuation of accounts, processing of contributions, transfers among accounts). The funds affected for PERF and TRF are the non-budget administrative funds for both.

*Background Information:* A consultant for PERF has estimated the record-keeping task to cost between \$250,000 and \$500,000 to set-up, with annual costs ranging between \$6 M and \$7 M. This amounts to between 34 or 39 basis points, based on the estimated value of the Annuity Savings Account of \$1.8 billion. A basis point is a measurement of fluctuation in the current yield equal to 1/100th of 1% on bonds or bills. For the Teachers' Retirement Fund, the estimate ranges between \$1.2 M and \$2 M, or between 10 and 20 basis points, based on the estimated value of the Annuity Savings Account of \$1.3 billion. By way of comparison, the state's Deferred Compensation program pays about 50 basis points, or approximately \$1.5 M, based on a \$500 M account value. It should be noted that the difference in the estimated costs has to do with the size of the funds involved and the specific functions to be performed by the record keeper. The funds

affected for PERF and TRF are the non-budget administrative funds for both.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund; Teachers' Retirement Fund.

**Local Agencies Affected:**

**Information Sources:** Dr. William Christopher, Director of TRY, 232-3869; Mercer Consulting, 312-902-7858; Jeff Heinzmann, Legal Counsel, State Auditor's office. 233-1712.

**Fiscal Analyst:** James Sperlik, 317-232-9866.